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## RELATION OF JOBBERS AND COMMISSION MEN TO THE HANDLING OF PRODUCE

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So long as each locality produces its own food supply, the problem of distribution is very simple. Either there is no distribution at all, viz: each consumer produces his own supply or there is direct sale by producer to consumer as in the old time fairs, or there is at most a local merchant who acts as an intermediary. A jobber or commission man does not fit into such a simple local economy and this explains the absence of such middlemen until about the beginning of the eighteenth century.

It is only as economic changes tend to broaden markets beyond the producing localities that the need for a larger distributive machinery arises. Such a widening of the market along geographical lines was a characteristic change during the eighteenth and nineteenth centuries, mainly as a result of improvements in canal and railway transportation. A still further widening of the market has taken place during the last three or four decades, mainly as a result of improved means of refrigeration, but the latter extension of the market has been one of time rather than of space.

That the widening of markets, made possible through improved transportation and refrigeration, is desirable will scarcely be questioned by those who are conversant with the limitations and instability of conditions under the early local economy as contrasted with the variety in supply and the greater stability in prices of the larger markets. The form of distributive machinery that is best adapted to the needs of the enlarged markets is, however, not so clear.

It is the purpose of this paper to explain the relation of the commission man and jobber to the handling of produce in the enlarged markets of today, and to discuss some of the problems that have arisen in connection therewith. By commission man is meant an agent stationed at a primary market for the purpose of receiving consignments from shippers at a distance and disposing of the same at a stipulated rate of commission on the selling price. The term

jobber is used to apply to those dealers in the primary markets who buy outright from shippers at a distance, either through travelling agents or according to mailed quotations and who sell to retail agencies or to other jobbers in the same or in other primary markets.

A survey of the agencies handling produce in our primary markets twenty or thirty years ago discloses very few jobbers. Practically the whole field was held by the commission man. It was he who acted as the sole intermediary between the local shippers and the retail agencies of the cities during the initial widening of the market. The advent of the jobber into this line of business came at a later date.

To understand why the commission man rather than the jobber first entered the primary market in the handling of farm produce we must bear in mind the degree of hazard which was then involved in such business. The fact is that no one cared to buy farm produce outright from distant shippers because of the risks involved. The only kind of business which then attracted men was that of an agent who could command a commission in proportion to the amount of produce handled without incurring at the same time any liability regarding the quality or safety of the product. This meant that all risks involved had to be borne by the local shipper.

An explanation of the factors contributing to those early risks requires the enumeration of a number of hazards. In the first place, the physical condition of the produce as it left the various farms was a matter of great uncertainty. Farmers had only the vaguest knowledge as to the demands of the market and would mingle produce of various grades and of various stages of ripeness or unripeness. The method of packing was equally unsystematic. The country merchant added poor handling and additional delay to the movement of the produce while the train equipment and slow movement of freight generally rendered extremely doubtful the quality of that portion of the produce which eventually reached the primary market.

Then, too, there were grave moral hazards as well. Any one familiar with this line of work could not fail to be impressed with the general lack of a sense of business integrity on the part of both the producer and the local shipper. Assurance might be given of the shipment of produce of high grade quality while the distinguishing characteristic of the returns would be oftentimes an utter lack of such quality.

The lack of a moral business sense on the part of the producer or local shipper was not only equalled but greatly exceeded by that of the average commission man handling the produce in the primary markets. However, it is only as we realize the peculiar position he occupied, that we can appreciate the practices usually attributed to him.

The commission man was far enough away from his principal to feel reasonably free from surveillance of any sort. He could report account sales on initial shipments so as to indicate big returns and having thus gained the confidence of shippers for further business, juggle the returns on large consignments to his own pecuniary advantage. It would naturally be his endeavor to handle as big a volume of produce as possible regardless of the care given to it in as much as his own income varied with the amount of the traffic. There was similarly an inducement for him to spread his own margin of gain beyond the nominal rate of commission by reporting the sale of produce at grades lower than those actually secured or by reporting sales at current prices when actual receipts involved an additional premium.

Such a system placed the local shippers at a grave disadvantage, of course. They were represented at a distance by men whom they did not know and in transactions they could not scrutinize. Fortunately for them another avenue through the primary markets eventually opened up. This came with the advent of the jobber.

It was, however, only after changes had made possible the movement of produce with care and dispatch between local sources of supply and the central distributing points that the jobber was induced to enter the field and buy outright. Previously, the extent of the risk involved had rendered it seemingly impracticable to open up a jobbers' avenue of trade through the primary market.

The earliest attempts at buying produce outright from primary markets were made by men who actually entered the local sources of supply and made purchases from local shippers. These field men would handle a variety of produce, some for purchase and some for sale.

Because of the limited amount of each kind of produce handled it was necessary to distribute the field-man's expenses over a variety of both purchases and sales in order to carry on the business successfully. Only after a personal knowledge of the character of the local

shipper had been gained and after the produce itself had been standardized so as to be identified with well-known grades, could the buying through field-men be supplemented by purchases through mailed quotations or through calls by telephone or telegraph. Even then, however, the use of actual field service continued to be employed in order to secure or hold trade in competition with other agencies in the same line of business. The specialized form of field work where men devote their buying to some single product, as in the case of the modern strawberry man, is a comparatively recent development and is limited to products subject to a high degree of localization and specialization.

In another respect, too, from the standpoint of the local shipper, the jobber's avenue of trade presented an important contrast to the older route, that via the commission man. Instead of the assumption of risks incident to consignments on commission the local shipper naturally preferred the security of actual sales. The result was a gradual displacement of commission business by that of jobbing wherever the latter found conditions for buying suitable. This change took place partly by the entry of new men into the jobbing field but often by a change in methods of doing business from commission to that of jobbing.

While a considerable number of produce men who began buying on a commission basis took up jobbing later, it was not uncommon to find a combination of both methods employed by the same firm. Dealers might handle certain lines on commission and buy other produce outright. Again a given commodity might be bought and sold in job lots at certain times and be taken in only on a commission basis later under different conditions. Such combinations of commission and jobbing business are still a common practice in all our leading trade centers.

The most important influence directing changes between the commission and jobbing methods of doing business is the movement of prices. Thus, during a period of uniform or rising prices, the jobbing business is encouraged whereas the conditions of oversupply leading to falling prices so far increase risks as to discourage jobbing and induce the dealer to accept shipments only on a commission basis.

Nevertheless, jobbing has so far become established now in the produce business as to make it the rule and commission buying the

exception in the handling of perishable products at our leading primary markets. The extent to which the jobber has displaced the commission man is more noticeable in Chicago and the twin cities than it is in New York City. The main explanation for this will be appreciated more fully after we have discussed the problems connected with the handling of surplus stock. At this time it is sufficient to state that the mere size of the New York market, enabling it to absorb large shipments at a relatively small change in prices, makes it seem the least risky place to consign produce that must be sent on commission. It should also be noted that where jobbing and commission business exist side by side in the same market, the latter is now practically confined to the lower grades of produce.

Not only has jobbing increased as compared with commission business, but competition among jobbers in the buying field has become very keen and has led to peculiar developments along certain lines. Thus, in the case of butter, we have an interesting situation revealed in connection with the practices of the recent butter board at Elgin. The tendency of that board to publish prices below those at which sales were actually made naturally aroused the indignation of the public. Nevertheless, the exact reason for such a procedure can only be understood in connection with the buying practices of the jobbing houses. Competition in securing or holding trade from local shippers had gradually led jobbers to offer premiums in the purchase of butter, such premiums to consist of a given margin above the Elgin quotations. The thought of getting a premium above market prices was, of course, attractive to local creameries, since it enabled them to make a good showing on the quality of the butter. To the extent that the same jobbers could have the market quotations as determined upon by their own board at Elgin appear lower than actual sales warranted, the offering of premiums was an easy matter. However, after action was later taken by the courts against the practice of the butter board, leading to a dropping of official quotations and to the publication of actual sales on the street, the practice of offering local shippers an apparent bonus over the market price has had to be modified accordingly.

Thus far our discussion of jobbing has centered mainly on the relation of the jobber to the source of supply. Attention will now be given more particularly to the selling activity of the jobber.

Two sets of problems confront these middleman agencies in the

sale of their produce: (1) the disposition of regular supplies through a more or less well-developed trade and (2) the unloading of additional amounts of produce at times of a surplus.

To meet the demands of regular buyers it is oftentimes necessary to work over the produce in order to put it in a condition that will appeal to the trade. It is also necessary to deliver the goods in the desired amount at the time and place it is wanted.

Relatively little attention was given by commission men twenty or thirty years ago to the work of sorting and repacking produce. The tendency was to pass it on to city retailers in much the same condition it was received by the commission man. This meant that the retail agencies were called upon to do whatever sorting or packing was demanded by the consumer.

In order to get the trade of the city retail agencies and to take advantage of the better prices which go with standardized goods, the jobbers soon took up the work of sorting and repacking. Whenever a gradual improvement has taken place in the quality of shipments from sources of supply the margin of gain from this kind of work necessarily becomes less. The amount of work of this kind, however, which still must be done on produce as it passes through the hands of jobbers, represents an appreciable part of the cost to the consumer. Any attempt to explain the middleman's margin must not overlook the items of cost arising in this way.

When the jobber sells to retail agencies he must also deliver the produce in desired amounts and at the time and the place it is wanted. Accordingly such jobbers must be equipped with a suitable delivery service. Here, again, competition between jobbers has involved a comparative test in the quality of service rendered. The horse and wagon were the usual equipment for many years but have rapidly been displaced by the motor-truck. The use of the latter by certain firms practically compels its use by all the competitors. One of the most sweeping changes in recent years among wholesale and jobbing houses at the various primary markets is that of the displacement of the horse and wagon by the motor-truck.

The jobber's task of disposing of surplus stock introduces a number of problems. He must find a way of unloading certain supplies within his own primary market because the condition of the produce will not permit its movement to other centers of trade. On the other hand, wherever a given primary market is overstocked as

compared with others, he directs his shipments so as to equalize conditions of supply in the distributing centers so far as such movement is practicable. Let us first consider the situation within a given primary market.

The demand from jobbers through the regular retail agencies varies considerably. This may be due to the uncertain manner in which the retailer distributes his wholesale orders. More generally it is due to the variations in purchases from retail stock by the consumer. Only one illustration of the latter is sufficient to emphasize this. If the weather is attractive and housewives venture forth in large numbers so as to see the produce for sale at the various retail agencies, the latter can count on an unusually heavy demand for such goods. On the other hand, if weather conditions suddenly become unfavorable thus tending to keep a great many customers at home, much less than even the ordinary demand is reflected in the sales of the retailer. While such a reaction on the business of any retailer may not seem of very great moment, the combined effect of such variations in all the retail agencies drawing on the supplies of a given jobbing firm means considerable variation in the business of the latter agency. This shows one way in which the problem of unloading a surplus is presented to the jobber.

Then again, the sources of supply are even still more the source of variability. This is partly explained in the relative instability of business practices by local shippers in handling produce and partly due to the seasonal variation in production itself at sources within reach of the jobber's trade.

The variations thus noted both in demand and supply show the need of some outlet for surplus stock. Assuming shipments to other primary markets impracticable, the jobber may partly satisfy this need by exchanges with other jobbers in his own center of trade. He may also unload on certain agencies other than the regularly established retail stores.

Formerly, the street peddler served the latter purpose to a large extent. By bringing his goods out into the consumers' territory it was possible to create a demand for produce beyond what would have been effective through the retail stores alone. At the same time, it is true that the peddler's business consisted partly in a displacement of the retailer's trade.

One of the noticeable changes in the city distributive machinery,

especially during the past decade, is a remarkable falling off in peddlers' business as it relates to the handling of produce. This change is doubtless due mainly to modifications in the wants of consumers themselves. The housewife who once was alert to the traffic of the street-vendor has largely become oblivious to his movements either because the exposure or quality of the peddlers' wares no longer appeals to her or because the orders by telephone or through the retailer's delivery service seem more in keeping with her social status.

With the passing of the produce peddler, the unloading of surplus stock by jobbers has had to be augmented in other ways. No doubt the advent of the chain stores and the produce branch of department stores has aided in this while, at the same time, increasing the regular trade. Moreover, the growing practice among the retail stores themselves of using their delivery service in soliciting orders and in calling especial attention to stocks they are anxious to move promptly has greatly increased the elasticity in demand placed upon jobbers by the retail trade.

Thus far the problem of unloading a surplus within a given primary market has assumed a high degree of perishability in the produce making necessary its immediate movement into the field of consumption. As a matter of fact, the most important development in the handling of produce during the last three decades has come through improvements in the art of refrigeration and a consequent lengthening of the period that perishable products may be held in the channels of distribution before going to the consumer. Moreover, such storing of foodstuffs has furnished the most effective means of solving the problem connected with the handling of the surplus.

It is natural therefore that jobbers should be actively interested in the progress of refrigeration as applied to products they handle. Anyone present at the sessions of the International Congress on Refrigeration held in Chicago in September, 1913, could not fail to observe the interest taken by jobbers in the deliberations of that body. Among the most intelligent questions asked regarding the technique of refrigeration processes or regarding the proper physical and chemical condition of produce to be placed in refrigeration were those from men actively engaged in the jobbing business.

For most of the fruits and vegetables handled by jobbers, the season of production in the source of supply is but a minor fraction

of the period of time during which jobbers are called upon to supply the same to the retail trade. Holding goods in cold storage has thus become a necessary part of their business. It means that they must render available during seasons of scarcity the amounts of produce sufficient to meet the consumers' demands and for this purpose they must anticipate prospective needs during periods of plenty and build up reserves accordingly. To do so successfully they must be able to unload later at an advance in price sufficient to cover additional costs for rent, interest and insurance as well as a margin of return for the risks incurred.

The risk feature becomes magnified when we remember the large number of agencies storing produce independently with only a vague knowledge of the actual supply held over for the future market. Not only is the amount in storage unknown but the various contingencies affecting the time and amount of additional future supplies are always a matter of grave uncertainty. The last-named difficulty was clearly exemplified during the winter of 1913 in connection with the storage of eggs. Unusually mild weather early in the winter had suddenly augmented fresh supplies rendering exceedingly problematical the unloading of storage eggs whose supply under normal conditions would not have been excessive. Although jobbers began to cut prices relying on elasticity of demand to remove the stored goods with sufficient dispatch, the retail agencies were more tardy in reducing their figures because of an unwillingness to sell at a loss. This explains why certain jobbers were ready to make terms with other avenues of sale such as that created by women's clubs in some of our leading markets.

Where jobbers dispose of their surplus by placing it in cold storage they are confronted with the need of setting aside the amount of capital represented by the stored goods. Few jobbers command the necessary money without resorting to borrowing. The usual course in this connection has been a resort to loans at the banks. However the rise of large storage companies with superior facilities for credit has introduced important changes in this respect.

Jobbers in the leading primary markets now often secure loans directly from storage firms who in turn arrange loans at lower rates with the banks. Similarly, in securing the protection of insurance on the stored goods, jobbers find it advantageous to get their insurance from the same storage firm which is enabled to take out at less

cost with an insurance company a large and long-time blanket policy sufficient to cover all the policy risks assumed for jobbers.

The discussion thus far has concerned the handling of a surplus more or less restricted in its use to a given primary market. However, the application of modern means of refrigeration to the handling of produce in transit has greatly facilitated the movement of such surplus stock between the various primary markets as well until we now have nearly a nation-wide movement of most of our fruits and vegetables.

This wider movement of surplus stock cannot be undertaken by jobbers without the use of facilities involving great increase in expense. It is necessary to know from day to day the supply conditions of each of the primary markets and this alone involves an outlay for telephone and telegraph expenses, the fixed charge of which it is impracticable to incur unless the jobber conducts his shipments between the primary markets on a sufficiently large scale. Then, too, this wider movement necessitates a knowledge of freight schedules and rates and of commercial practices that do not concern the dealer who limits his attention to a given trade center.

Our discussion has revealed the complexity of services devolving upon the middleman agencies in our modern distributive system. If the cost is to be reduced, such services must either be partly or wholly eliminated through changes in the wants of consumers or they must be rendered more efficiently either through other agencies or through some regulation of existing agencies.

Instead of passing produce through so many hands on its way from the producer to the consumer, some believe that a more direct route could be devised. It is generally conceded that the individuals performing the aforesaid middleman functions have not revealed any conspicuous affluence in wealth. At the same time many have come to regard the machinery as too cumbersome and expensive. An actual increase in the use of direct shipments recently from local sources of supply to the retail agencies in the cities and even to the consumers themselves has invited added interest in the possibility of a further extension of direct shipments.

The use of direct shipments implies, however, that the produce in question is graded according to quality so that it can be designated and bargained for without previous inspection. This means that the functions of sorting and packing as they are performed by job-

bers or city merchants must be undertaken and carried out in a satisfactory way by producers or local shippers.

Direct shipment also implies that information is at hand so that buyers and sellers of a given kind of produce may be able to find each other and agree upon conditions of sale. In order to render information available so as to bring buyers and sellers together, some states such as Kansas and South Carolina have appointed state officials who are expected to act as clearing houses of information for this purpose. Generally, however, the producer or local shipper is left to build up his own direct trade in the cities by furnishing such quality and service as to command a special demand for his produce or the city retailer must find such local shippers. However, the building up of such trade also implies that the necessary confidence exists between the buyer and seller in matters pertaining to the sale.

Again, direct shipment implies the availability of suitable and practicable shipping facilities. The present system of differential freight rates giving special rates in carload shipments is financially profitable from the standpoint of railway economy and is favorable to the indirect jobbing method of handling produce. On the other hand, the relatively high level of express charges has not given encouragement to any appreciable amount of direct shipment of produce. The most momentous change recently in this direction is the extension of the parcels post. Already there has been a rapid increase in the movement of parcels on terms such as to greatly facilitate the direct shipment of produce.

However, having given all the above mentioned requirements, direct shipment also implies a willingness on the part of both seller and buyer to give attention to all the necessary details of such a system. This assumes vastly more than the great body of either producers or consumers have shown themselves willing to undertake. While, therefore, we may doubtless look for a noticeable extension in the use of direct shipments, such extension is not likely to be carried beyond a minor fraction of the business as a whole.

An important reason for such limitations lies in the fact that the direct method of shipment has not as yet dealt successfully with the problem of handling surplus stock. On the other hand, the very agencies using the direct method of shipment have had to resort to the use of the indirect jobbing or commission system in dealing with a surplus.

While shipments direct from producers to consumers are likely to continue to cover a minor fraction of the total trade, the usefulness of such a system is not limited to the portion thus handled. A most important influence will be exerted in a sort of a regulative way on the methods of jobbers and commission men. In other words, the danger of a control of the supply by middlemen will be greatly minimized through the potential competition of a direct method of shipment.

While the limitations of the system of direct shipments have thus been discussed in order to indicate more clearly the relation of jobbers and commission men to the handling of produce, it is interesting to notice how the organization of certain producers themselves for marketing purposes has enabled them to do a part of their own jobbing. The most notable example of this kind is that of the citrus fruit growers. Even these, however, with their highly perfected form of organization find it necessary to make use of the existing middleman machinery at the various primary markets.

Finally, assuming the limitations of the direct method of shipments including that of the extension of producers' and consumers' organizations, will the commission and jobbing agencies render efficient service without any other checks than those of active and potential competition? That something more is necessary is implied to the extent that public regulation has been applied to the business of these middlemen. Such regulation has been applied in two ways. In the case of the commission business, state regulation has been provided in some instances as in Minnesota and New York compelling commission merchants to be licensed and bonded and subjecting their accounts to inspection by state officials in case of complaint from local shippers. The problem suggested in this connection is whether it is desirable and practicable to extend the regulation of commission business so that the accounts of such firms are inspected regularly in some such manner as that applied to banking institutions. The same problem arises in connection with the storing of surplus stock by jobbing or other agencies. In the latter case, the public interest is affected not only by the possibility of abuses such as the misrepresentation of storage goods as if they were fresh, but also by the extent to which a concentration of surplus stock may lead to a control of the supply.